OPERATIONS DIGEST

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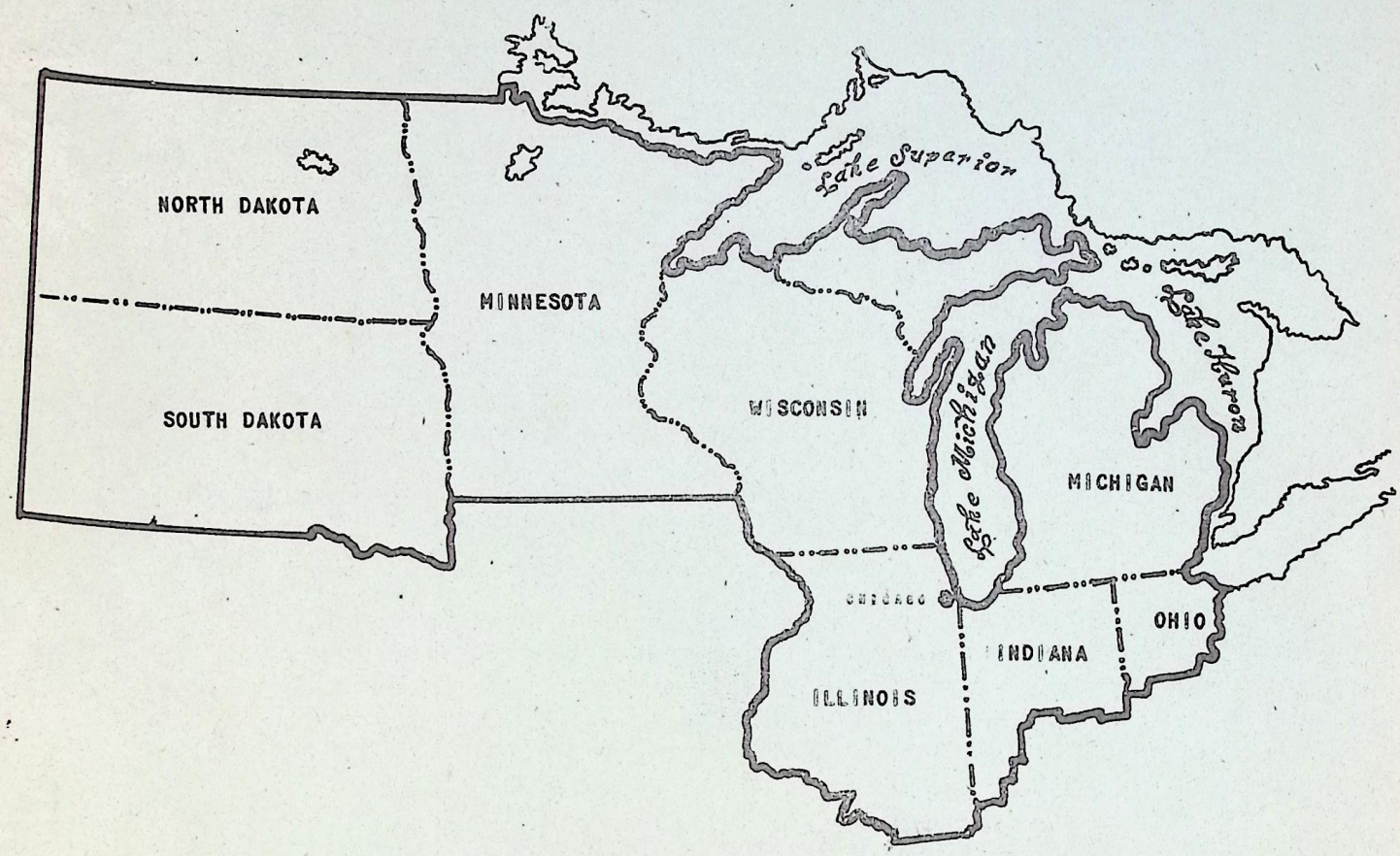

PREPARED BY

ORGANIZATION and METHODS DIVISION

REPORTS CONTROL BRANCH

Table 1
Operating Statement
Consumer & Capital Goods
January-March 1948

1948	End of Month Inventory* $	Acquisitions $	Disposals $	Recovery Rate %
January	129,621,000	-43,577,000	13,694,000	15
February	116,238,000	9,409,000	22,790,000	24
March	145,316,000	51,588,000	22,509,000	15

*Does not include suspense inventory.

Inventories

The Chicago Region (the old Region V) ranks as the second largest WAA region and holds approximately 10% of the national WAA inventory of consumer and capital goods. When WAA was established two years ago the Chicago Region took over an inventory of $337 million. In the two years since then this region has received approximately $500 million additional inventory in new (net) declarations. Data covering gross declarations are available only for the past year, but they indicate that generally gross declarations have been twice as large as have net declarations.

In the past 2 years owning-agencies withdrew roughly $200 million or 40% of the property they declared to the Chicago Region. Most of these withdrawals occurred in the first year of WAA's existence and contributed to the huge backlogs of paper-work that hampered regional operations in this period.

Since its establishment, the Chicago-Region's major problem has been the inaccuracy of its inventory records. A Washington-office survey-team estimated in September 1946 that Chicago-Region inventory records were 50% inaccurate. In the subsequent year the inventory was "firmed" twice. During these firmings, (1) many millions of dollars of inventory were found in WAA warehouses which were not listed on regional accounting records, (2) many millions of dollars of property carried on accounting records could not be located in WAA warehouses by inventory inspectors. The two firming operations, extending over the greater part of a year, did not, however, give the Chicago Region an accurate inventory record. Each month customers continued to file several hundred claims against the Chicago office, and most of these claims were traceable to the fact that regional sales personnel were selling from inaccurate inventory records.

Since other regions had much the same experience in firming their inventories as did Chicago, the Washington office in August 1947 established the Office of Stock Control as a permanent unit in each regional office with the function of "reconciling" inventory records on a continuing basis. In the 6-month period, October 1947-March 1948, the Chicago Office of Stock Control and the Accounting Division in their reconciliation operations eliminated $100 million of "water" from the inventory records of the Chicago Regional Office. In the meantime, another survey of regional operations by Washington-office representatives in January 1948 had reported that 454 of the 685 locations then listed on the Chicago-Region accounting records were purely "paper sites."

The Chicago-Region inventory, including suspense inventory, now amounts to $153 million. Over 50% of this inventory is still in the process of being firmed or reconciled. Approximately $36 million of the inventory frozen for programming by the Warehouse Deactivation Committee is not yet firmed. The Office of Stock Control has an estimated $16 million and will likely receive for reconciliation a substantial part of the $36 million recently transferred to the Chicago Region from the Minneapolis Region. The Accounting Division also has $15 million in its "98" and "suspense" accounts.

The Chicago Master Region on March 31 had an IBM inventory of $226 million of which $50 million represented net acquisitions received in the month of March.

Offerings

A record of regional offerings is available for the past 10 months. The peak level was reached in July 1947 when $110 million or 40% of the IBM inventory was offered for sale. The low point was reached 6 months later in January 1948 when $11 million or 6% of the IBM inventory was offered for sale. Over the 10-month period the region had, on the average, 21% of its IBM inventory on sale each month. During the next 3 months a total of $88 million is scheduled for offering. Most of this ($66 million) is scheduled to take effect in May.

Over the past 6 months the Chicago Region has spent almost $100,000 in printing approximately 2,000,000 sales catalogs. One sale has been secured for every 230 catalogs distributed and if total catalog cost is distributed equally over total number of sales made, catalog cost per sale amounts to $11.00.

On April 1 the Chicago Master Region had $28 million or 13% of its IBM inventory programmed. On a percentage basis, Detroit had about twice as much of its inventory programmed as did Chicago.

Disposals

In the last 2 years the Chicago Region has disposed of $557 million (at acquisition cost) of consumer and capital goods. Sales comprised approximately 85% of this $557 million while transfers to other government agencies without charge represented the remaining 15%. Most of the transfers occurred in the second year of WAA's existence and approximately 75% of them represented transfers of machine tools and production equipment to the armed forces under the JANMAT program in the last 8 months. Scrap disposals, including aircraft and electronic disposals, in the last 19 months have amounted to $71 million (at acquisition cost) or 18% of total disposals in this period.

In the last 18 months the Chicago Region has sold more than twice as much property through internal sales, including customer-service-center sales, than it has through location sales. The low point in location sales was reached in the months of November 1947-January 1948, when only slightly more than $3 million (acquisition cost) was sold. However, location sales recovered some in the last 2 months and should increase progressively as the warehouse deactivation program gains momentum between now and June.

The Chicago Region has made 60% of its total sales in the last 15 months on a bid-basis. Sealed bid sales have been the leading type of sale, followed by spot-bid sales, and then by fixed-price sales. Approximately 10% of all sales have been made on national programs.

In most months manufacturers have bought more property from the Chicago Region than have all other buyers combined. This record contrasts with most other regions where wholesalers have been the leading class of buyers. This situation may be attributed to two factors. First, the Chicago Region has made most of its sales in Illinois, Indiana, and Wisconsin, and these states contain a higher percentage of the nation's manufacturing industry than they do of its wholesale markets. Hence, the opportunities are greater for selling to manufacturers than to wholesalers within the 3 states in which the Chicago Region has made most of its sales. Second, machine tools and industrial equipment comprise a larger percentage of the Chicago Region's total inventory than they do of the inventories of most other regions. Since such machinery is more often bought by manufacturers than by wholesalers, it should be expected that the Chicago Region would make relatively more sales to manufacturers and fewer to wholesalers than do most other regions.

When Washington-office representatives surveyed the Chicago Region in November 1946 they found that veterans were not being accorded the priority rights for the purchase of surplus property granted to them by law. Since that time, a series of steps have been taken to facilitate and encourage veterans' purchases. The high point in Chicago-Region sales to veterans came in January 1947 when veterans bought over $8 million (acquisition cost) of consumer and capital goods. In the following 13 months, veterans' purchases fell sharply, total veterans' purchases in this period approximating only $6 million. Over-the-counter sales to veterans have not amounted to much dollarwise. In the last 5 months such purchases have constituted only .3 of 1% of total regional disposals. However, 3,500 veterans per month have made purchases at Chicago-Region over-the-counter sales.

Targets

The Chicago Region fell 42% short of the August 1947-March 1948 disposal-targets set by the Zone-3 office under Operational Programs. In contrast to other regions, not once did the Chicago Region meet its monthly target. Moreover, on only a few occasions within the last year has the Chicago Region come even close to the disposal goals set by the Office of General Disposals in submitting its personnel requirements to the Budget Division.

Chicago's failure to meet its targets can be attributed to several factors. First, the targets set for the various regions within Zone 3 were based primarily upon the total inventory held by each region; the larger the inventory, the larger the target. However, the Chicago inventory was tremendously inflated by "water" such as duplicate listings of the same item. In the August 1947-March 1948 period the "water" eliminated from the regional inventory amounted to 40% of the August inventory. This large amount of watered inventory put the Chicago Region at a great disadvantage in striving to meet its disposal targets for the simple reason that property which does not exist cannot be sold --although the region's record on customer claims indicates that this feat has frequently been attempted.

If allowance is made for this watered inventory, Chicago's disposal record does not appear quite so bad. Other WAA regions between March 1, 1947, and February 29, 1948, disposed of 73% of their March 1, 1947 inventories plus net acquisitions received between March 1, 1947, and February 29, 1948. Chicago's percentage was 70%. In other words, Chicago compensated for its low disposal rate by eliminating fictitious inventory from its records.

Notwithstanding the water in its inventory, the Chicago Region could have met its disposal targets last summer if it had sold a larger percentage of the property it offered for sale. In this period, a failure to sell property offered for sale, especially machine tools, played an important part in holding down the level of Chicago's total disposals.

Over the last several months, the Chicago Region has done a better job in selling the property it has offered for sale, but a sharp decline in the level of offerings has reduced the volume of sales. The withholding of inventory from sale for reconciliation operations plus other freezes have reduced the amount of inventory available for programming and sale.

Recovery Rate

The Chicago Region has, over the past 2 years, realized a recovery rate of 27% on its sales of capital and consumer goods. This rate declined from 46% in April 1946 to 11% in June 1947. Since then, the rate has varied from month to month, the average for the past 10 months being 15%. The decline in recovery rate has been due to two factors: (1) the poorer quality of the merchandise available for sale after the first few months of WAA operation, (2) the increased output of private industry in late 1946 and in 1947 and the competition that this new merchandise created for the sale of surplus property.

The Chicago Region has realized a higher recovery rate on its fixed-price sales than on its bid sales and a higher recovery rate on its spot-bid sales than on its sealed-bid sales. Sales to federal agencies, veterans, and foreign governments have realized higher recovery rates than have sales to commercial buyers. This is explained by the fact that much of the property bought by federal agencies and veterans has been in short supply and hence has been priced at a relatively high percentage of acquisition cost.

On a commodity basis the recovery rate has varied sharply from month to month. Much of this variation disappears, however, when an average is taken of the last 20 months. Hardware & General Products are low with 10%. Materials & Supplies average 20%; Paper, Furniture, & Office Machinery, 25%; Drugs & Medical Products, 25%; Metal-Working Equipment, 28%; Industrial Equipment, 29%; Textiles & Apparel, 29%; Automotive & Machinery Products, 30%; and Metals, 33%.

From month to month the Chicago-Region recovery rate has varied from the national WAA recovery rate, but averaged over a period of many months, the two rates are approximately equal. However, in each of the past 3 months, the Chicago-Region recovery rate has exceeded the national WAA recovery rate.

Chicago Master Region

Table 2
Consumer & Capital Goods Operations
March 1948

(in 000's of $)

	Chicago	Detroit	Minneapolis	Total
Opening Inventory*	$116,237	$79,316	$11,323	$206,876
Net Acquisitions	51,588	9,328	-11,323	49,593
Sales	10,492	4,879		15,371
Other Disposals	12,017	2,686		14,703
Total Disposals	22,509	7,565	(3,141)	30,074
Disposal Target	26,271	12,789	1,953	41,013
Recovery Value	1,567	1,256		2,823
Recovery Rate	15%	26%		18%
Closing Inventory*	145,316	81,079		226,395

*Does not include suspense inventory.

The Chicago Master Region fell 27% short of its disposal-target in March, March being the third straight month that the region has missed its target. Under the Fifth Operational Program, covering the months January-March, the Chicago Master Region missed its target by 12%.

Minneapolis accounted for an estimated $3.1 million of the Chicago-Master-Region's disposals of $30.1 million in March. This $3.1 million is included in Chicago's $22.5 million disposals in table 2.

Warehouse Deactivation

On January 1, 1948, 32 major locations in the Chicago Master Region were scheduled for deactivation by June 30, 1948. By March 31, 7 of these locations had been deactivated. On a tonnage basis, one-third of the January 1 total tonnage of 156,000 had been deactivated by March 31.

Almost 75% of the tonnage scheduled for deactivation between now and June 30 is held in 6 of the 27 locations still to be deactivated. These 6 locations are: Warehouses 4, 9, 16 (Toledo), 19, 21, and 29.

Table 3
Income & Expense
July 1946-March 1948

	Millions of $
Total Income	
Capital & Consumer Goods Sales	$ 77.89
Real Property Sales	104.68
Rents & Interest	8.70
Total	$191.27
Total Expense	
Salaries & Wages	$21.12
Reimbursements to Owning Agencies	7.25
Warehouse Operation Costs	4.40
Plant Clearance	2.58
Protection & Maintenance of Property	2.06
Rents & Utilities	2.04
Miscellaneous Contractual Services	1.91
Supplies & Materials	1.13
Broker-Dealer Agreements	1.05
Other	1.86
Total	$45.40
Excess of Income Over Expense	$145.87

In the past 21 months the Chicago Region has realized a net income of $146 million. Sales of consumer and capital goods contributed 41% of this total, with real property sales and leases accounting for the remaining 59%. The sale of the Republic Steel Plant in December 1946 accounted for 33% of total real property income in this period. Fifty-six per cent (56%) of total consumer and capital goods income came from the sale of machine tools, textiles & apparel, trucks & passenger cars, steam equipment, and iron & steel. Machine-tool sales alone accounted for 24% of capital & consumer goods income.

Income from capital & consumer goods sales has declined steadily. This decline amounted to 21% in the January-June (1947) period as compared with the July-December (1946) period, and to 58% in the July-December (1947) period as compared with the January-June (1947) period. The lower level of income in the first 6 months of 1947 occurred in spite of a 44% increase in sales at acquisition cost and was due to a sharply reduced recovery rate. On the other hand, the decline in the second half of 1947 was due mainly to a 43% decline in sales at acquisition cost.

No definite conclusions can be reached regarding the relative efficiency or inefficiency of the Chicago WAA Region as compared to related fields of private industry from a profit-and-loss point of view. Since machinery of one sort or another has constituted well over 50% of the regional inventory and since most of this machinery has been sold to manufacturers, a comparison of the Chicago Region with large machinery wholesalers seems most appropriate. Operating expenses of large machine-tool wholesalers and of large used-machinery wholesalers range from 16% to 27% of their income. In the July 1946-June 1947 period operating expenses in the Chicago Region, chargeable to the consumer & capital goods inventory, comprised 33% of income from consumer & capital goods sales. In the July 1947-March 1948 period this figure rose to 53%. Hence, in both periods operating expenses in the Chicago Region were definitely higher than in the two fields of private industry cited.

The figures cited, however, require qualification. In the past 9 months a considerable part of the Chicago Region's time has been diverted from selling to transferring property to other federal agencies. These transfers, although as time-consuming from a workload point of view as sales, have yielded no income. If the Chicago Region were to take credit for the estimated market value of the property transferred, its "income" for the past 9 months would be doubled and the ratio of its expense to income would be cut in half. On this basis, operating expenses in the Chicago Region would be roughly comparable to those in related fields of private industry.

Personnel

The Chicago Region when it commenced operations in March 1946 had a total personnel of 2,289. Personnel strength increased gradually until it reached 4,297 in December 1946. An 18% reduction in the next 4 months was partly offset in May and June by an increase in personnel for the second inventory firming. However, another reduction started in July and continued for the next 8 months, so that on February 29, 1948, the region had fewer employees (2021) than when it was established two years ago.

The Chicago Region has had a rapid turnover of personnel and in the 2 years that this region has functioned, it has employed approximately 10,000 persons. This high rate of turnover has applied to the higher as well as to the lower positions of authority as evidenced by the fact that the Chicago Region has had a new Regional Director, on the average, every 3 months for the past 2 years. This frequent change of authority with the frequent reorganizations and changes in policy that have followed must be charged in part with responsibility for the Chicago Region's repeated failure to meet its disposal targets. Resignations have comprised approximately 40% of total regional personnel separations in the last year.

During the year 1947 the Chicago Region lost slightly more than one working day per employee per month through sick-leave. Total sick-leave taken in 1947 exceeded sick-leave earned by 17%. Since only 34% of all persons employed by the region during 1947 took sick-leave, many individual employees took far more sick-leave than they earned during 1947. They did this by drawing upon sick-leave earned but not taken in government employment prior to 1947.

Employment in the Chicago Master Region numbered 3,514 on March 31, a 19% reduction in the last 3 months. However, inventory held by the Chicago Master Region declined 27% in the same period so that workload, in terms of dollar-inventory per employee, is lower now than it was at the first of the year.

Complaints

The Chicago Region has received about 500 customer complaints per month for the past 10 months. This represents about 1 complaint for every 4 sales. Over the past 10 months there has been some tendency for the number of complaints received to decline. This decline may be attributed almost entirely to the decline in sales in this period, and available data indicate that, if anything, sales have declined faster than has the receipt of complaints.

The most frequent cause for customer complaint concerns delays in the delivery of merchandise. Several months ago, delays in processing sales, especially in making awards on sealed-bid sales, were a common cause for complaint. Complaints on this score have, however, declined considerably in the last month or two.

The regional backlog of unsettled customer complaints has dropped considerably in the last several months. On April 9 there were 57 cases pending vs. 331 on January 16. These 57 cases represent only several days' work at the recent settlement rate.

Cancelled Sales

In the last 21 months in the Chicago Region, cancelled sales amounted to $40 million or 10% of total gross sales made in this period. In the Chicago Region, as in other WAA regions, a much smaller percentage of location sales were cancelled than of internal-office sales. The reason for this is that at location sales customers, before buying, generally inspect the property available for sale. This preinspection minimizes the possibility that inaccurate property descriptions in sales catalogs, due in turn to inaccurate basic inventory records, will later generate customer claims.

Cancelled sales, as a ratio of total gross sales, have been increasing in all WAA regions. This increase has been especially marked in the Chicago Region which in the November 1947-February 1948 period had the highest cancelled-sales ratio of any region in the country. Prior to this recent period, Chicago's record on cancelled sales was about equal to the average of other WAA regions.

Claims

Customer claims against the Chicago Region have numbered 500 to 600 per month and in some months more. Roughly, 60% of these claims are classified as "overpaid" accounts and represent cases in which the customer's right to full payment of his claim is not subject to serious dispute. The remaining 40% represent cases in which some compromise settlement of the claim is generally made. Settlements in this second group have averaged 60% of the amount claimed by the customer.

Although a number of things lead customers to file claims, ultimately most claims can be traced to the fact that inaccurate inventory records have led regional sales personnel unwittingly to misrepresent the quality or quantity of the property they were selling.

Although the Chicago Region has received many claims, its record is still better than is that of other WAA regions. Over the past 9 months the Chicago Region has received 1 claim for every $46,000 in sales vs. 1 claim for every $25,000 in sales in other regions. In this same period the Chicago Region also had 1 overpaid account for every $27,000 in sales vs. 1 overpaid account for every $24,000 in sales in other regions.

In addition to its present workload of 800-1,000 unsettled customer claims and overpaid accounts, the Chicago Region has 671 unsettled tort claims. Approximately 80% of these concern claims of WAA employees against the Chicago Region for injuries received while on duty. The remaining 20% represent cases in which Chicago-Region employees have, through negligence, injured a third party or his property, or in which Chicago-Region employees or property have been injured through the negligence of a third party. In the past, 88% of the claims closed by the regional Tort Claims Branch have been closed under the Statute of Limitations which bars a claim against the United States Government unless legal action is started within one year from the date of the accident. In other words, most tort claimants have forfeited their claims by failing to take legal action within the required one year's time.

On March 31 the Chicago Master Region had 1651 unsettled customer claims and overpaid accounts, a reduction of 39% in the past 2 months. Detroit had most of the unsettled claims (812) while Chicago had most of the overpaid accounts (246).

Backlogs

From time to time serious backlogs of work have developed at one point or another in the regional organization which have delayed the processing of sales or the delivery of merchandise. When the Washington survey-team made its inspection of the Chicago Region in September 1946, it found a huge backlog of paper work in the Accounting Division. Approximately 22,500 unprocessed sales documents were on hand plus 750 unanswered letters involving customer complaints of one sort or another. Gradually this backlog was reduced and in recent months the Accounting Division has had no serious backlog of unprocessed sales documents. Also, the regional Complaint & Expediting Section now processes most complaints within several days of their receipt.

In July 1947 the Traffic Division accumulated a backlog of 6,500 sales documents. Two months later when reporting on this backlog was discontinued, the backlog had been reduced 75%.

Several months ago a serious backlog in the documentation of JANMAT disposals existed. On January 23, 1948, this backlog amounted to $28.1 million. By April 9 it had been reduced to $10.8 million. This backlog represented machine tools that had been reviewed and tagged by the armed forces for inclusion in their stand-by program. The delay in documenting most of this property has been due to the failure of the armed forces to issue shipping instructions covering it. The volume of inventory frozen for review by JANMAT representatives has been reduced from $35.5 million on December 26, 1947, to $0.6 million on April 9, 1948.

The Chicago Region's most serious backlog at present is in shipping orders. On April 9 unshipped orders amounted to 2,947 of which approximately two-thirds represented delayed JANMAT shipments. The development of this backlog was due in part to the increase in the workload of the Warehousing Division when it was assigned the duty of checking regional sales catalogs for "availability."

The Market

The surplus property program has benefited from the fact that during the past 2-1/2 years business firms and consumers have been on the biggest buying spree in history. Also, prices on new merchandise have increased by approximately 30% and even at higher prices demand has far exceeded the production of many industries.

On the other hand, the disposal of surplus property has been handicapped by the fact that much of the property available for disposal was not convertible to peace-time use except at prohibitive cost. This became especially true after "choice" merchandise was quickly purchased in the early months of WAA's operation. Moreover, as each month passed, the "waiting period" required to secure new merchandise from private firms decreased and hence the leading motivation to buy surplus property—the fact that surplus property was available for "early" delivery—lessened. Moreover, the extreme difficulty experienced by many buyers in purchasing from WAA and in securing delivery of purchased property cut heavily into potential "repeat" business. Taken together, these impediments severely reduced the potential market for the regional inventory in the second year of WAA's operation, notwithstanding the price and other advantages conducive to the sale of this inventory. A survey by the Department of Commerce indicated that the 1947 market for used plant and machinery fell short of the 1946 market by more than 50%.

The Chicago Region, like other WAA regions, failed to take advantage of the greatest export boom in this country's experience that prevailed for the first year following World War II. In a period when a number of private industries, such as the machine-tool industry, were securing 25% of their total sales abroad, the Chicago Region averaged only 1% of its sales in export markets.

Market prospects for the sale of the regional inventory are unlikely to change much in the 3 remaining months that WAA operations are scheduled to continue. The textile and apparel industries have been the only major industry to suffer a noticeable slump in activity in recent months. The machine-tool industry, one of WAA's leading competitors for the past 2 years, is now preoccupied in planning for export under the Marshall Plan. Approximately $350 million of the first year European-aid appropriation is scheduled to cover machine-tool and industrial-machinery exports.

The accelerated donation program to state governments will help liquidate the regional inventory in the next few months. However, this program will not amount to much dollarwise unless far greater interest of the states in WAA's activities can be created than has been done in the past. Over the past 21 months, state & local governments bought only 2% of all consumer & capital goods sold by the Chicago Region.

In the light of past experience, a wider use of the spot-bid type of sale, as currently planned, appears to be the quickest method of liquidating the regional inventory. This type of sale has had an average disposal rate of more than 90% plus a better than average recovery rate.